

On Magnets and Magnates

In order to thrive in the global economy, communities need both *magnets* and *glue*. At least that's what Harvard Business Professor Rosabeth Moss Kanter argues in her book.

Magnets attract a flow of external resources - new people and companies - to renew and expand the local pool of skills and to broaden local horizons on excellence and world standards. The *glue* refers to the social cohesion that brings people together to define the common good, create joint plans and identify strategies that benefit a wide range of people and organizations in the community. The glue consists of two parts. Physical infrastructure - roads, sewers and communications systems - is essential for daily life and commerce. The human services and voluntary groups that comprise the social infrastructure allow communities to solve problems and "create the future."

But recent evidence indicates that the glue is becoming far more than simply a way of holding communities together. It actually appears to be one of the most important magnets in attracting and keeping investment and business.

In September 1996, *Fortune 500* magazine named Toronto as the top (outside the US) place in the world for doing business and having a good quality of life. The rankings were developed on the basis of both quality of business indicators and quantitative measures that contribute to the quality of life including the incidence of crime, excellence in education, the number of physicians and the availability of cultural attractions.

At the 1996 awards ceremony of the National Quality Institute, Industry Minister John Manley pointed out that Canada has ranked consistently at the top of the world on the Human Development Index - a composite score that measures life expectancy at birth (a reflection of the general health of the population and the quality of health care services), the adult literacy rate and average years of schooling. He noted the importance of this quality-of-life measure in determining the factors that go into building a strong country. "Profits will and must continue to be the key measure of a company's economic success. ... But increasingly, people are questioning whether profits are a sufficient

objective for a corporation if its long-term success is dependent upon a healthy society.”

A 1995 article in *The Economist* supports this argument, noting that several Canadian businesses which had gone south in search of cheap labour and lower taxes returned to Canada. They found that there was something to be said for a healthy well-educated workforce and that Canada was, in effect, the “better bet.”

Yet quality-of-life issues (the glue factors) are not only important magnets in attracting magnates. The glue factors also play a crucial role in attracting good employees. A November 1996 article in *Forbes* magazine pointed out that ‘smart companies’ must rethink their basic employment practices to compete globally for a shrinking pool of highly talented employees. “All over the country, smart employers large and small are wooing their workers with nonmonetary rewards that add convenience to their daily lives and render them more fulfilling.

So the question then arises - how high is the price of this glue? Clearly, it comes at a cost. And if this cost is inordinately high, then it surely must weigh as a heavy tax on business.

It’s not, says KPMG. Its 1996 study compared the costs of doing business in 10 Canadian cities with those in 13 American cities. The study examined the impact of location on key capital and operating costs for seven manufacturing and processing industries. The comparative analysis employed illustrative business scenarios that included current tax rates, cost factors and exchange rates. The study found that in all seven industries examined, overall location-sensitive costs were consistently lower in Canada than in the US.

Salaries and wages, including benefits, are the single most important cost factor for the selected industries, representing 19 to 32 percent of total operating costs and, on average, 65 percent of location-sensitive costs. The price of employer-sponsored benefits, in particular, was lower in Canada. The prime reason is lower Canadian costs for hospital, surgical, medical, and major medical insurance premiums, employer-sponsored benefits, employer-paid statutory benefits and wage-based taxes. These insurance premiums represent a cost of 8.2 percent of gross pay in the US compared with only one percent in Canada.

Both magnets and glue are important to ensure the health of local economies. But the ‘soft’ glue factors - strong and diversified physical and social infrastructure - are often considered to be costly overhead and become the obvious targets of cost-cutting. In the global economy, however, they may turn out to be a magnet of their own to attract business and revitalize local economies.

The evidence - all from business sources - points to two important conclusions. Canada is a good place to do business. And it’s not *despite* our social programs - it’s *because of* them.

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